

# Economic Outlook

Presented to the  
Lacey Chamber of Commerce – ROXY Business Connector  
Economic Development Roundtable

Bret Bertolin  
Senior Economist

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WASHINGTON STATE  
ECONOMIC AND REVENUE FORECAST COUNCIL



## Summary

- The state's economic outlook has weakened since our June forecast
  - Downward revisions to historical data means we are starting from a lower point
  - The economic recovery has entered a "soft-patch" and the national outlook is now considerably weaker
- Economic activity is "muddling along" and the recovery is expected to be painfully slow
  - Weak confidence
  - Weak housing, commercial construction
  - Slow job growth
  - Improving, but still tight credit for small business
- Double-dip unlikely, but possibility higher
- Increased uncertainty

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Slide 1

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## This is the worst recession since WW II

Recession	Peak-to-trough decline		Recession Duration
	Real GDP	Employment	
	percent	percent	months
1948-49	1.6	5.0	11
1953-54	2.5	3.4	10
1957-58	3.1	4.2	8
1960-61	0.5	2.3	10
1969-70	0.2	1.2	11
1973-75	3.2	1.9	16
1980	2.2	2.3	6
1981-82	2.6	3.1	16
1990-91	1.4	1.4	8
2001	0.7	1.7	8
<b>Average</b>	<b>1.8</b>	<b>2.6</b>	<b>10</b>
<b>2007-09</b>	<b>4.1</b>	<b>6.1</b>	<b>18</b>

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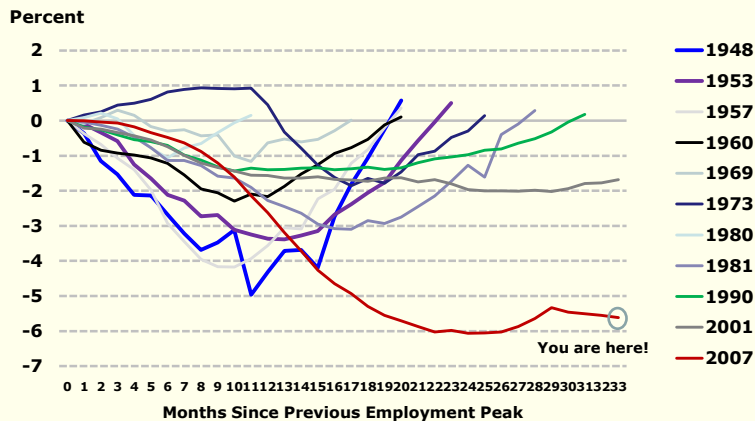
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Source: NBER, ERFC

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## Employment compared to business cycle peak



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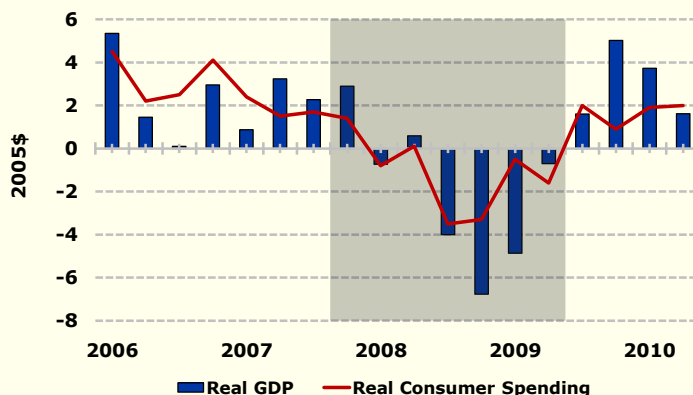
Source: BLS; actual data through September 2010

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## GDP growth has moderated, and is now well below trend

Percent growth, SAAR



Source: BEA, data through 2010 Q2

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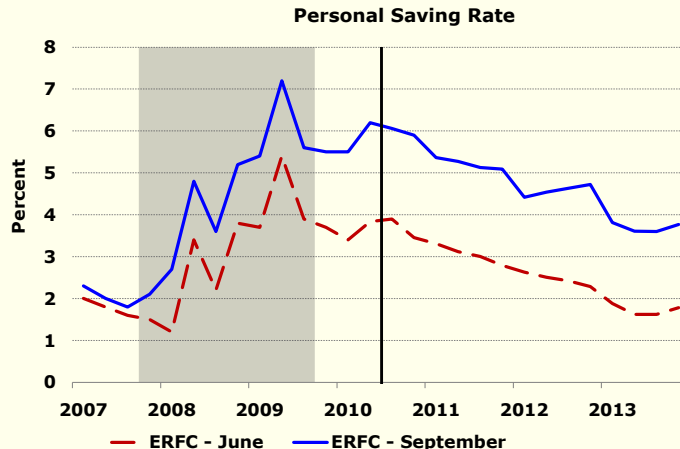
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## The historical savings rate was revised up sharply, affecting our forecast

The saving rate for 2010Q1 was revised from 3.1% of disposable income to 5.5%.



Source: ERFC September 2010 forecast; actual through 2010 Q2

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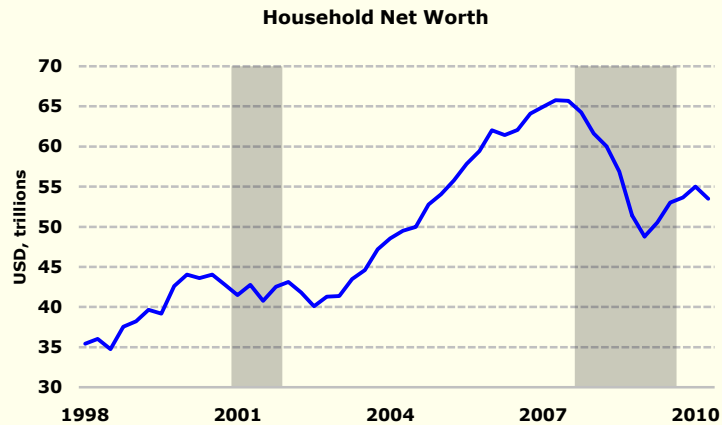
## Household net worth is on the mend, but still well below its peak

\$18 trillion  
of wealth  
was lost in  
this  
recession

\$6 trillion  
has been  
recovered  
so far

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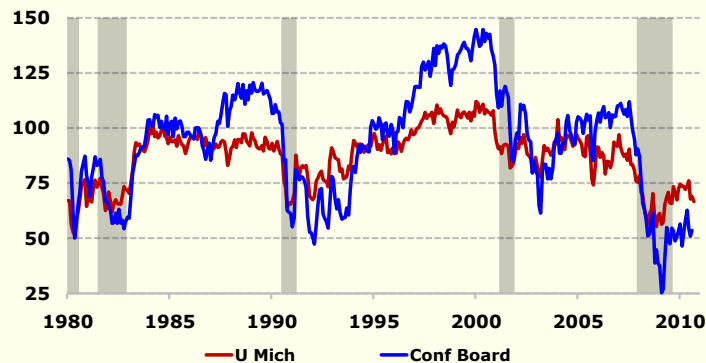
Source: Federal Reserve; data through 2010 Q2

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## Consumer confidence remains uncertain

**Index**  
Mich: 1966Q1 = 100, SA  
Conf Board: 1985 = 100, SA



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Source: University of Michigan; Conference Board, data through September 2010

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## Private sector job growth in WA mirrors the national pattern – weak and hesitant

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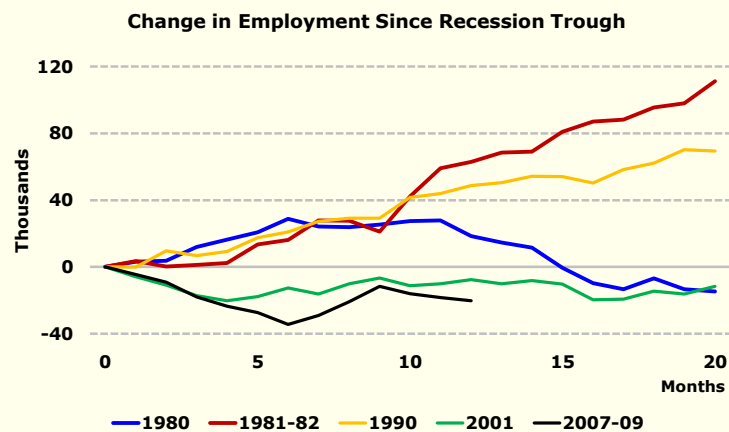
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## Employment growth since the trough has been slowest for this recession...

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## ... and the hole we are in is also the deepest

Peak to  
trough job  
losses

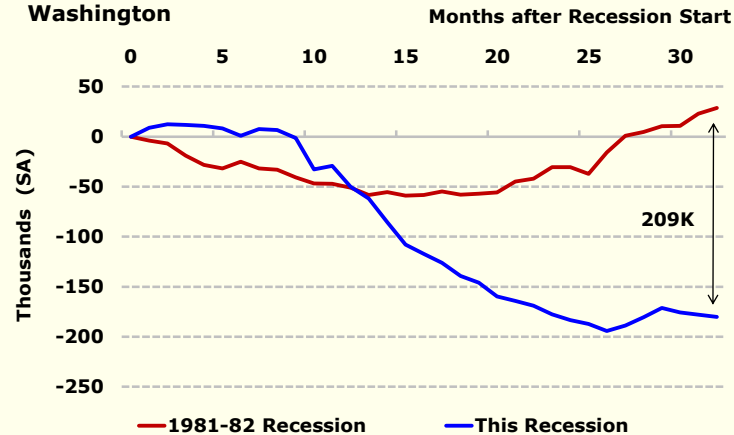
**1981-82:**  
2.9% of  
labor force

**This time:**  
5.5% of  
labor force

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### Washington



Source: WA ESD, ERFC; data through August 2010

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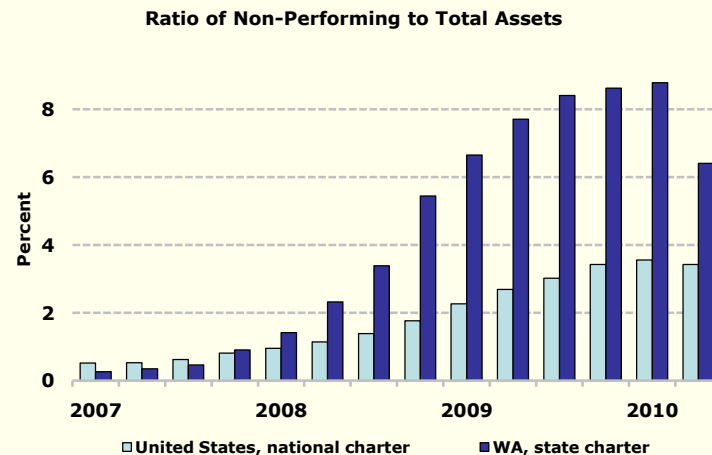
## Asset quality of WA regional banks is improving

The poorer  
asset quality  
of regional  
banks is due  
to their  
disproportion-  
ately high  
exposure to  
commercial  
real estate

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### Ratio of Non-Performing to Total Assets

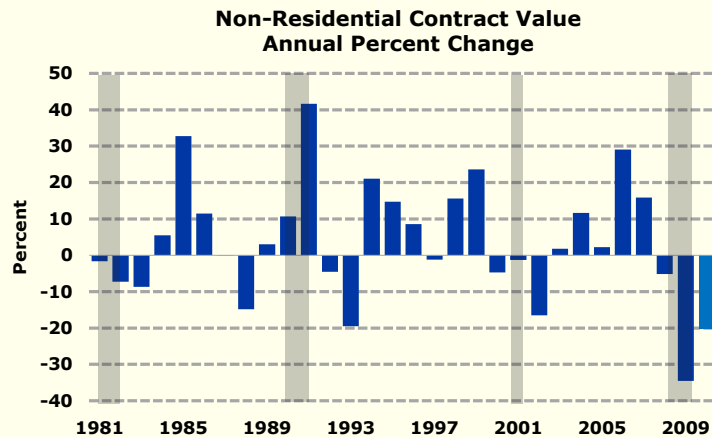


Source: FDIC, data through 2010 Q2

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## This is WA's worst downturn in non-residential construction in 30 years



Source: McGraw-Hill Construction, data through August, 2010

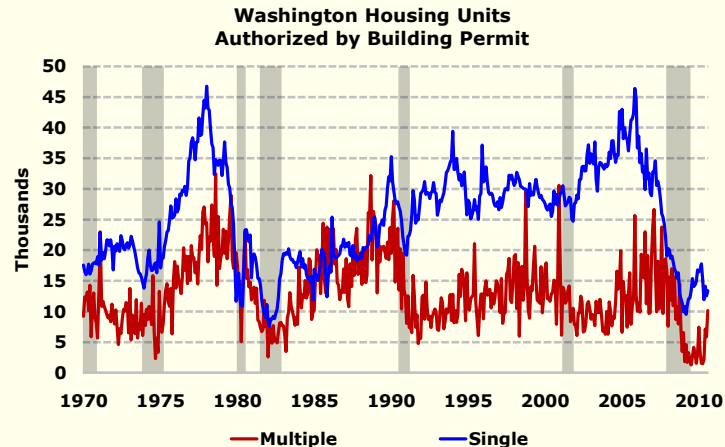
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## WA SF building permits have dropped sharply since the tax credits expired



Source: U.S. Census Bureau; data through August 2010

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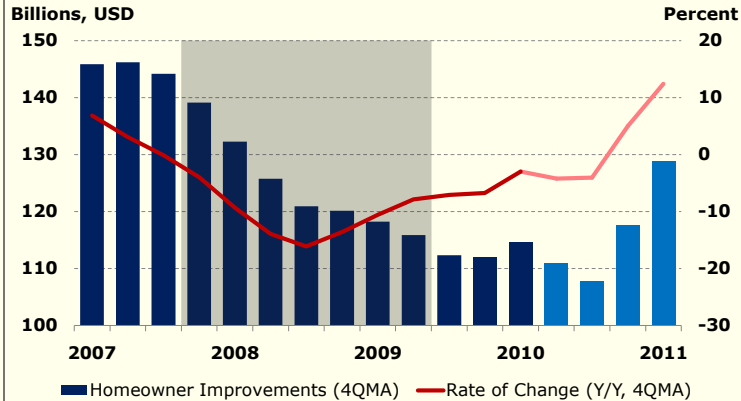
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## Leading indicator suggests remodeling improvement in late 2010

### The Leading Indicator of Remodeling Activity (LIRA)



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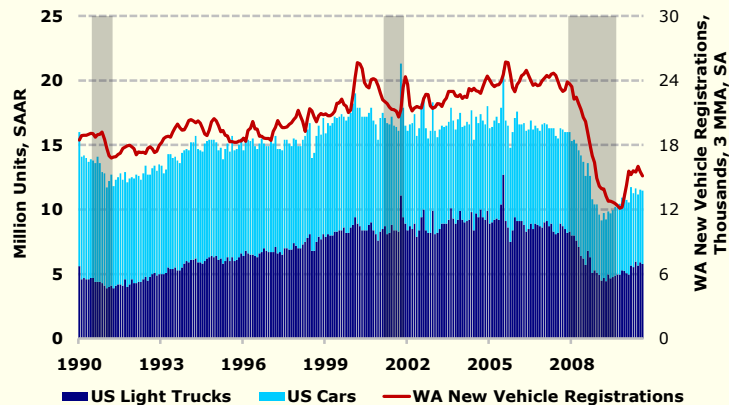
Source: Joint Center for Housing Studies of Harvard University, actual data through 2010 Q1

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## Automotive sales are treading water, after recovering from its trough

Cash for  
Clunkers  
effect  
removed



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Source: Autodata Corporation, WA DOL; data through August 2010

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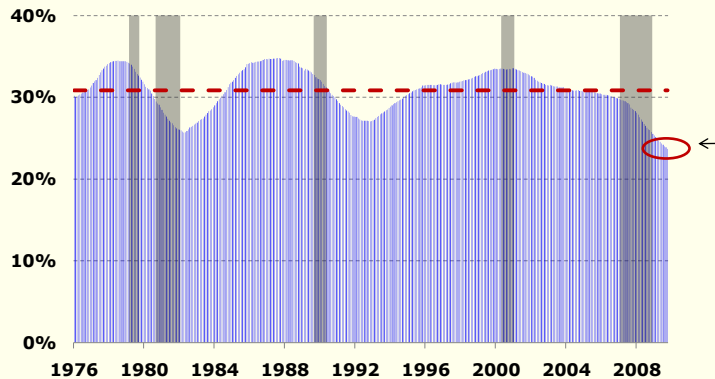
## Relative age of the car fleet indicates imminent turnaround in car sales

The percent of "old" cars on the road is at a historic high

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**U.S. LMV Sales: Ratio of 36/120 Months**



Source: Autodata Corporation, ERFC; data through August 2010

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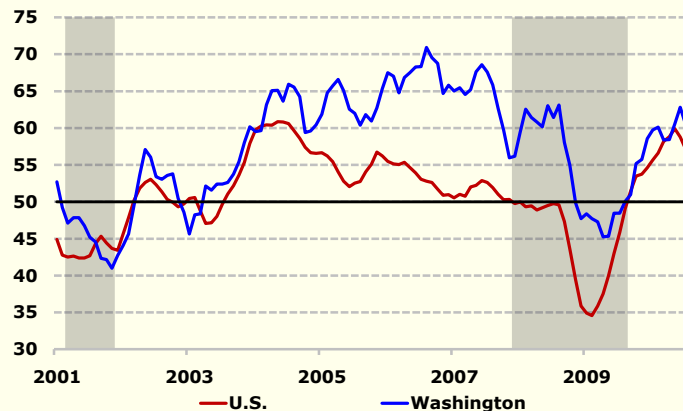
## Washington manufacturing has been outperforming the nation

An index greater than 50, implies growth

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**Institute of Supply Management Index, 3MMA**



Source: Institute of Supply Management; data through August 2010

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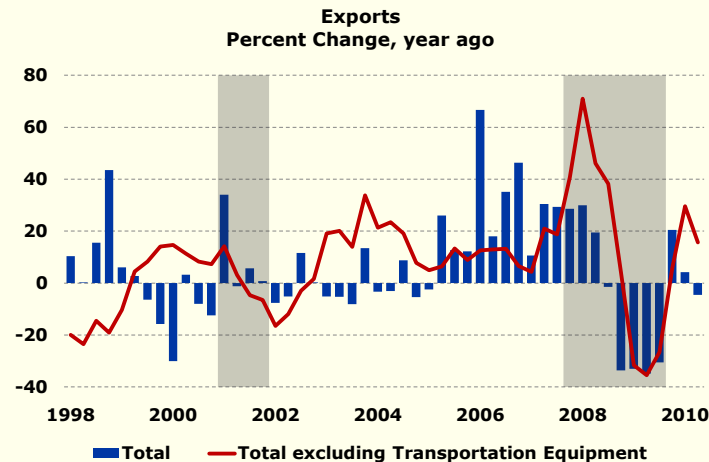


## WA export growth is slowing, but will help state outperform in the recovery

Exports excluding transport equipment were up 15.6% y-o-y in Q2

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Source: Wiser Trade Data; through 2010 Q2

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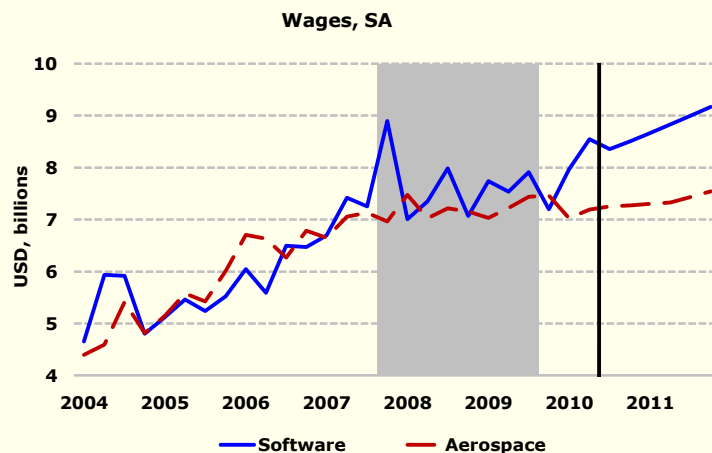


## WA aerospace and software sectors are expected to add \$4 billion in wages through 2013

Through 2013, WA aerospace and software industries will contribute 14% of wage growth, although they represent just 5% of the workforce

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Source: ESD, ERFC September 2010 forecast; actual data through 2010Q2

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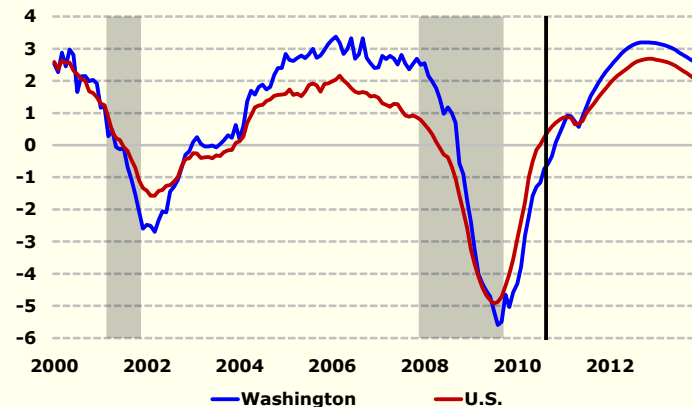


## WA employment lagged the nation in the downturn and will initially recover at about the same rate as the nation

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Percent change, year ago



Source: ERFC September 2010 forecast; actual through August 2010

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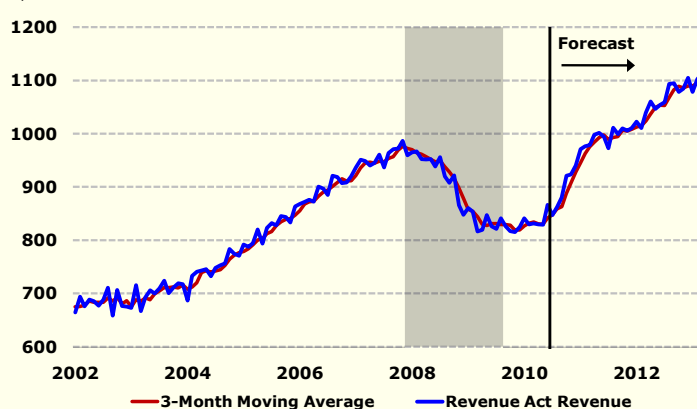
## Revenue Act collections are now trending upward, and likely to continue

Adjusted receipts were up 3.2% year-over-year in the August 11 - September 10 collection period - for July activity.

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\$millions SA



\* Adjusted for large one-time transactions, current definition of Revenue Act

Source: DOR and ERFC; monthly data through July 2010 activity; September 2010 forecast

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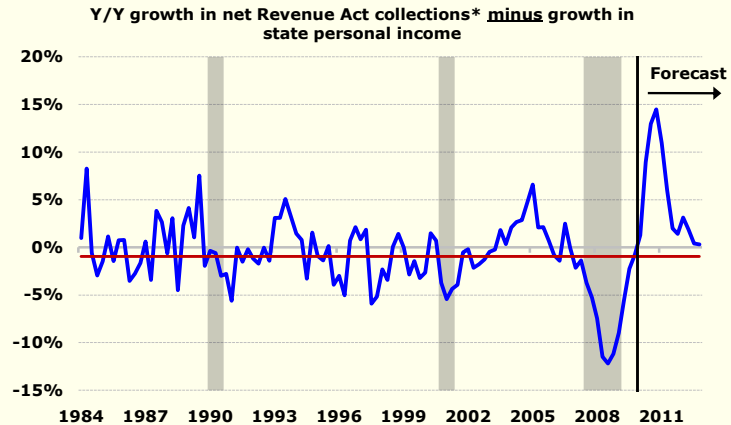


## Revenue growth relative to income will improve sharply due to 2010 legislation

The growth rate for FY 2011 is accelerated by legislative additions to B&O and retail sales taxes

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\*Current definition of Revenue Act, includes effects of 2010 legislation

Source: DOR and ERFC; data through 2010Q2 estimated, September 2010 forecast

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## Forecast changes: General Fund State, 2009-2011 Biennium

June  
Forecast:

**\$29,282  
million**

USD millions	September '10 Forecast				
	<u>Collection Experience</u>	<u>Non- economic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	(\$189)	(\$5)	(\$552)	\$27,055	(\$747)
All other agencies	(\$2)	\$0	(\$21)	\$1,457	(\$23)
<b>Total GF-S</b>	<b>(\$192)</b>	<b>(\$5)</b>	<b>(\$573)</b>	<b>\$28,512</b>	<b>(\$770)</b>

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\* Detail may not add to total due to rounding

Slide 23

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## Forecast changes: General Fund State, 2011-2013 Biennium

USD Millions

USD millions	June 2010 Forecast	September '10 Forecast			
		Non-economic Change	Forecast Change	Forecast	Total Change*
Dept. of Revenue	\$32,433	(\$10)	(\$611)	\$31,812	(\$621)
All other agencies	\$1,650	\$0	(\$48)	\$1,602	(\$48)
<b>Total GF-S</b>	<b>\$34,083</b>	<b>(\$10)</b>	<b>(\$659)</b>	<b>\$33,414</b>	<b>(\$669)</b>

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\* Detail may not add to total due to rounding

Slide 24

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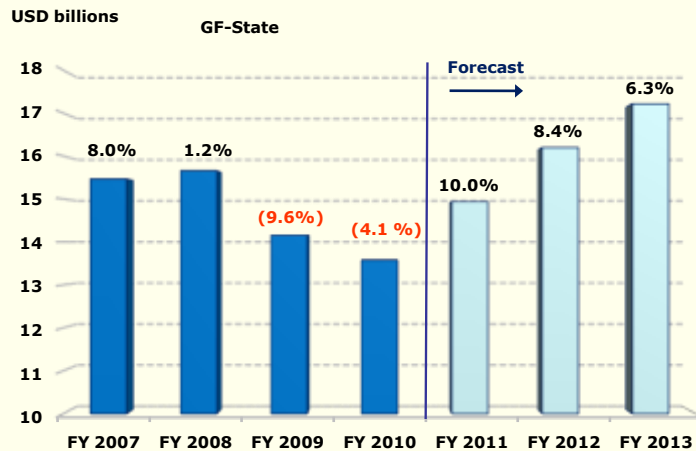
## General Fund\* forecast by fiscal year

\* General Fund & Related Funds for FY 07, 08, and 09

General Fund – new definition, for FY 10-13

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## Conclusion

- The economic outlook has significantly weakened in the last three or four months
- Historical data revisions indicate weaker activity than previously estimated
- We expect the recovery to continue, but at an agonizingly slow pace
- The forecast for the 2009-11 Biennium is \$770 million lower, due to a weaker economic outlook
- The forecast for the 2011-13 Biennium is \$669 lower for the same reason
- The level of uncertainty inherent in our forecast is higher than before
- The downside risk to the forecast is also higher

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Slide 26

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## Questions



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**Economic & Revenue Forecast Council**  
1025 E. Union Avenue, Suite 544  
Olympia WA 98504-0912

[www.erfc.wa.gov](http://www.erfc.wa.gov)  
360-570-6100